
APPENDIX XII-2

24 CFR PART 320

GUARANTY OF MORTGAGE-BACKED SECURITIES

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AUTHORITY: 12 U.S.C. 1721(g) and 1723a(a); ; and 42 U.S.C. 3535(d).

SOURCE: 60 FR. 42015, Aug. 14, 1995, unless otherwise noted.

SUBPART A - PASS-THROUGH TYPE SECURITIES

§ 320.1 General.

The Association is authorized by section 306(g) of the National Housing Act (12. U.S.C. 1721(g)) upon such terms and conditions as it may deem appropriate, to guarantee the timely payment of principal of and interest on securities that are based on and backed by a trust or pool composed of mortgages which are insured or guaranteed by FHA, FmHA or VA. The Association's guaranty of mortgage-backed securities is backed by the full faith and credit of the United States. This subpart is limited to "modified pass-through" securities, and does not purport to set forth all the procedures and requirements that apply to the issuance and guaranty of such securities. All such transactions are governed by the specific terms and provisions of the Association's Mortgage-Backed Securities Guides (MBS Guides) and contracts entered into by the parties.

§ 320.3 Eligible issuers of securities.

- (a) *Eligibility requirements.* A mortgage lender, including an instrumentality of a State or local government, to be eligible to issue or service mortgage-backed securities guaranteed by the Association must satisfy all of the following standards:
 - (1) Be in good standing as a mortgagee approved by the FHA;
 - (2) Be in good standing as a mortgage seller or servicer approved by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), or the Association. Loss of either FNMA approval or FHLMC approval may cause the issuer to become ineligible to issue and service the Association's mortgage-backed securities and constitute a default under the applicable guaranty or contractual agreement whether or not the issuer qualified for a new issuer approval on the basis of FNMA or FHLMC approval;
 - (3) Have management with adequate experience, and access to adequate facilities to issue or service mortgage-backed securities, as determined by the Association;
 - (4) Maintain the applicable minimum net worth discussed in paragraph (c) of this section; and
 - (5) Meet the requirements, conditions, and limitations prescribed by the Association in this part of the applicable MBS Guides.
- (b) *Time of eligibility.* The Association shall not commit to guarantee, or guarantee any issue of mortgage-backed securities unless the mortgage lender requesting such commitment or guaranty qualifies as an eligible issuer both at the time of commitment approval and at the time of the issuance of the guaranty.
- (c) *Net worth requirements.* Issuers shall maintain at all times a net worth acceptable to the Association of not less than the applicable minimum amount. The applicable minimum amount shall be published in the MBS Guides.
- (d) *Disqualification.* A mortgage lender shall not qualify as an eligible issuer at any time in which:
 - (1) The lending policies of the issuer permit any discrimination based on race, religion, color, national origin, age, or sex of a borrower; or
 - (2) The issuer is not in compliance with any rules, regulations, or orders issued under title VI of the Civil Rights Act of 1964; Executive Order 11063, Equal Opportunity in Housing, November 20, 1962; Executive Order 11246, Equal Employment Opportunity, issued on September 24, 1965 and amended on October 13, 1967; title VII of the Civil Rights Act

of 1968; title VIII of the Civil Rights Act of 1968 as amended by the Fair Housing Amendments Act of 1988; or by the FHA or VA.

- (e) *Ethics and standards.* A mortgage lender shall qualify as an eligible issuer only so long as it conducts its business operations in accordance with accepted mortgage banking practices, ethics, and standards, as determined by the Association, and maintains its books and records in accordance with generally accepted accounting principles.
- (f) *Change in control.* Issuers shall notify the Association of any change in issuer control. A change in control occurs whenever a new party obtains significant influence over an issuer, as defined by the Association. In a merger where the surviving party is not the approved issuer and in a consolidation, the surviving party must apply formally for approval as a new issuer prior to the merger or consolidation taking place. In other business combinations, such as a stock sale of an existing issuer, which result in a change in control of issuer, the issuer shall demonstrate that it continues to meet all issuer eligibility requirements prior to the business combination being finalized.
- (g) *Cross-Default.* Related issuers, as defined by the Association, shall execute a cross-default agreement, in a form prescribed by the Association, that authorizes the default of one or more related issuers in the event of a default by any one of the related issuers. Issuers may be granted an exemption from this section, provided that they submit a legal opinion, acceptable to the Association, which demonstrates that the execution of a cross-default agreement would be prohibited by the issuer's Federal regulator.
- (h) *Failure to comply.* In the event that an issuer subsequently fails to comply with any of the requirements prescribed in this part or the applicable MBS Guide, as determined by the Association, the Association may, among other things, withhold further commitments to guarantee securities until such time as the Association is satisfied that the issuer has resumed business operation in compliance with such requirements.

§ 320.5 Securities.

- (a) *Instruments.* Securities issued pursuant to the provisions of this subpart must be modified pass-through securities, that provide for payment, whether or not collected, of both specified principal installments and interest on the unpaid principal balance, with all prepayments and other unscheduled recoveries of principal being passed through to the holder. In the case of delinquent mortgages in a pool backing modified pass-through securities, the issuer is required to make advances if necessary to maintain the specified schedule of interest and principal payments to the holders, or at its option, at any time 90 days or more after default of any such mortgage, the issuer may repurchase such mortgage for an amount equal to the unpaid principal balance of the mortgage. The securities, if issued in certificated form, must specify the dates by which payments are to be made to the holders thereof, and must indicate the accounting period for collections on the pool's mortgages relating to each such payment, and the securities, if issued in

certificated form, must also specify a date on which the entire principal will have been paid or will be payable.

- (b) *Issue amount.* Each issue of guaranteed securities must be in a minimum face amount as specified in the applicable MBS Guide. The total face amount of any issue of securities cannot exceed the aggregate unpaid principal balances of the mortgages in the pool. The Association may provide for issuers to submit packages of mortgages that may be consolidated, with other packages of similar types of mortgages, into multiple issuer pools.
- (c) *Face amount of securities.* The face amount of any security cannot be less than \$25,000.
- (d) *Transferability.* Securities are transferable, but the share of the proceeds collected on account of the pool of mortgages is payable only to the registered holder of a security according to the policies established by the Association.
- (e) *Issue date.* Securities with issue dates of October 1, 1998, or before, have been issued in certificated form. Except for serial note securities and securities backed by multifamily mortgage pools, securities with issue dates of November 1, 1998, or thereafter, will be issued initially in uncertificated, book-entry form. Following initial issuance, certificated securities will be issued in exchange for uncertificated securities at the request of the registered holder and upon payment of any required fee. Serial notes and securities backed by multifamily mortgage pools will continue to be issued in certificated form until the applicable MBS Guide provides otherwise.
- (f) *Delivery.* Delivery of uncertificated securities occurs when the book-entry depository's nominee is registered as the registered owner of the securities on Ginnie Mae's central registry.
- (g) *Guaranty.* The Ginnie Mae guaranty of uncertificated securities becomes effective when the book-entry depository's nominee is registered as the registered owner of the securities on Ginnie Mae's central registry.

§ 320.7 Mortgages.

Each issue of guaranteed securities must be backed by a separate pool of mortgages which meet the requirements of the applicable MBS Guide.

§ 320.9 Pool Administration.

The Association will only guarantee securities if the issuer executes a guarantee agreement or contractual agreement in the form prescribed by the Association. Pool administration requirements are set forth in such agreements or the applicable MBS Guide.

§ 320.10 Financial reporting.

Issuers shall submit to the Association audited annual financial statements within 90 days of their fiscal year end. All financial statements with a fiscal year end date on or after [one year after the effective date of

this rule] shall include a classified balance sheet and a statement of operations and cash flows, prepared in accordance with the standards for financial audits of the U.S. General Accounting Office's Government Auditing Standards, issued by the Comptroller General of the United States. The balance sheet shall show the division of total assets into current, noncurrent and fixed assets and the division of total liabilities into current and long-term liabilities.

§ 320.11 Insurance coverage.

The issuer shall maintain, for the benefit of the Association, insurance, errors and omissions, fidelity bond and other coverage as required by the Association and set forth in the appropriate MBS Guide.

§ 320.12 Integrity.

- (a) *Background.* Issuers shall disclose the background of all individuals serving on their Board of Directors and all individuals acting as authorized signatories. The disclosures shall include any prior convictions, fines or other adverse actions against these individuals by a Federal, state or local agency, or a government-related entity where the action is related to the responsibilities that are commensurate with those of the financial services industry. The term government-related entity includes but is not limited to, FHA, VA, FmHA, FNMA, FHLMC, Office of Thrift Supervision, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and National Credit Union Administration.
- (b) *Change in status.* Issuers shall disclose material changes in their status with other government-related entities and regulatory agencies, or state or local agencies with similar authority, within 5 business days of their occurrence. The disclosures shall include, but not be limited to, voluntary and non-voluntary terminations, defaults, fines, and material non-compliance with agency rules and policies. Disclosures that are specifically prohibited by an agency are exempted from this section.

§ 320.13 Guaranty.

The Association guarantees the timely payment, whether or not collected, of the interest on the outstanding balance and the specified principal installments on securities that are registered on the central register of Ginnie Mae securities. The Association's guaranty is backed by the full faith and credit of the United States.

§ 320.15 Default.

- (a) *Issuers default.* Any failure or inability of the issuer to make payments as due as well as such other events as may be identified by the Association and included in the applicable guaranty agreement, contractual agreement or MBS Guide, shall constitute a default of the issuer.
- (b) *Action upon default.* Upon any default by the issuer, the Association may:
 - (1) Institute a claim against the issuer's insurance, bond or other coverage, as specified in § 320.11;

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- (2) Pursuant to section 306(g) of the National Housing Act (12 U.S.C. 1721(g)), extinguish all right, title or other interest of the issuer in the pooled mortgages; and
 - (3) Exercise such other rights and remedies as it may have.

§ 320.17 Fees.

The Association may impose application fees, guaranty fees, securities transfer fees and other fees.

SUBPART B - BOND-TYPE SECURITIES

§ 320.21 General.

In addition to the “pass-through” securities dealt with in subpart A of this part, the Association is authorized by section 306(g) of the National Housing Act, 12 U.S.C. 1721(g), upon such terms and conditions as it may deem appropriate, to guarantee the timely payment of principal of and interest on “bond-type” securities which are based on and backed by a trust or pool composed of mortgages which are insured or guaranteed by FHA, FmHA or the VA. The Association’s guaranty of mortgage-backed securities is backed by the full faith and credit of the United States. This subpart deals with such “bond-type” securities and does not purport to set forth all the procedures and requirements that apply to the issuance and guaranty of such securities. All such transactions are governed by the specific terms and provisions of the contracts entered into by the parties and the Bond-Type Securities Guides (the “Bond Guide”).

§ 320.23 Eligible issuers.

Any corporation, trust, partnership, or other entity with a net worth acceptable to the Association as set forth in the bond Guide, which as the capability to assemble acceptable and eligible mortgages in sufficient quantity to support required minimum issuances of securities and which meets such other requirements as are set forth in the Bond Guide, may be approved to issue and service bond-type securities guaranteed by the Association. Further, the Association reserves the right to limit the number of issuers in the interest of conducting an orderly market of securities of this type.

§ 320.25 Securities.

- (a) *Instruments.* Securities to be issued pursuant to the provisions of this subpart B may be in registered or bearer form. Each security shall have terms acceptable to the Association as provided in the Bond Guide.
 - (b) *Issue amount.* Each issue of guaranteed securities must be in a minimum face amount as specified in the Bond Guide. The total face amount of any issue of securities cannot exceed the aggregate unpaid principal balances of the mortgages in the pool.
 - (c) *Face amount of securities.* The face amount of any security cannot be less than \$25,000.
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- (d) *Transferability.* Bearer securities are freely transferable. Registered securities are transferable only on the books of an agent, as shall be agreed upon by the Association and the issuer.
 - (e) *Treasury approval.* Issues of \$100 million or larger will be subject to approval of the Secretary of the Treasury.

§ 320.27 Mortgages.

Guaranteed securities issued under these provisions must be based on and backed by mortgages pooled under trust arrangements satisfactory to the Association. Such mortgages must meet the requirements of the Bond Guide.

§ 320.29 Guaranty.

With respect to bond-type securities, the Association will guarantee the timely payment of principal of and interest on such securities, subject to the terms and conditions of the securities. The Association's guaranty is backed by the full faith and credit of the United States.

§ 320.31 Default.

Upon default of the issuer, the Association has the right, pursuant to section 306(g) of the National Housing Act (12 U.S.C. 1721(g)), to take title to the mortgages and other assets that are subject to the trust arrangements, and to proceed against other assets of the issuer to the extent necessary to satisfy its own claims and the rights of the holders of securities then outstanding. Such action by the Association shall be taken subject to an accounting to the issuer.

§ 320.33 Fees.

The Association may impose application and guaranty fees, which may vary with relation to the size or risk of the guaranty transaction undertaken.

